This is the pre-peer reviewed version of the following article: Sagner, J. S. (2006), Using RFPs to manage your bank relationship. J. Corp. Acct. Fin., 18: 21–28. doi: 10.1002/jcaf.20258, which has been published in final form at http://onlinelibrary.wiley.com/doi/10.1002/jcaf.20258/abstract.

RFPs and the Bank Relationship Management Process

James S. Sagner

School of Business, University of Bridgeport,

Bridgeport, CT 06601, USA

2006

Article for *The Journal of Corporate Accounting & Finance,* Nov. 2006

"RFPs and the Bank Relationship Management Process"*

by James S. Sagner

Recent deregulation of the financial services industries has made access to banking services more difficult,[1] and many CEOs and CFOs are finding that credit and non-credit business may have to be awarded to retain the goodwill of their banks. Non-credit services are the for-fee products offered to corporate customers, including cash management, trust, shareholder services, custody, trade finance, foreign exchange, and derivative instruments.

Bank Relationship Management

Many companies use bank relationship management*,* a comprehensive approach to the financial institution-corporate partnership. Traditional bank calling often involved years of attempts to generate an opening to corporate business. This worked as long as adequate revenues could be generated from corporate business, particularly as most bankers had a poor understanding of profitability by customer or product line. Furthermore, commercial banks were restricted in the use of their capital, and could not pursue more lucrative business, such as investment banking or insurance.

The 21st century environment allows banks and other financial service companies to pursue a much broader range of business opportunities, reducing their reliance on credit products and marginally profitable non-credit services. As with other for-profit shareholder-owned companies, banks require a reasonable return-on-equity from each customer, and may terminate a relationship if there is little prospect of acceptable returns in the long run. The treasurer should meet with his/her direct reports to plan a comprehensive approach to bank relationship management in consultation with the CEO and CFO.

Given the partnership orientation of banks and companies, there has been a growing trend toward periodic relationship reviews. The objectives of the review are to:

- Assure that the relationship is profitable to the bank while providing added value to the company.
- Develop a consultative attitude between the bank and the company to improve current processes and increase efficiencies.
- Deliver quality customer service and the timely implementation of new products and services.
- Understand the future requirements of the company.

---

*This article is updated and revised from material originally in Chapter 9 of *Essentials of Managing Corporate Cash*, by Michele Allman-Ward and the author, Wiley, 2003.

[1] The Riegle-Neal Act of 1994 allowed full interstate banking by 1997. The Gramm-Leach-Bliley Act of 1999 ended Glass-Steagall Act prohibitions on the separation of commercial and investment banking, and insurance.

At each step in the cycle, adjustments can be made by either party to meet the requirements of the "partnership".

Considerations in Bank Selection

Bank contact has traditionally been through finance, which has such responsibilities as the safeguarding of the cash and near-cash assets of the company. However, access has been extended through other business functions in recent years as banks have broadened their product offerings. Too often, financial staff remains unaware of the resulting dilution of its responsibility.

- Purchasing and accounts payable is often the entry for EDI, e-commerce, purchasing cards and disbursement outsourcing (comprehensive payables).
- The payroll department or human resources may invite discussions concerning the direct deposit of payroll and payroll ATM cards.
- The investment or real estate departments may be interested in such specialized services as stock loan, custody, and escrow or tax services.
- Systems or information technology (IT) often initiates discussions about any of the more technology-oriented bank services.

Given the current credit environment, it is essential that finance be the gatekeeper for all banking contact. This may require CEO involvement in the process, particularly as certain functions listed above (or others that use banking-type services) do not report to the treasurer or even to the CFO.

Credit Facilities

Credit facilities normally are requested of the financial institution based on past and projected financial statements, a business plan, booked and anticipated sales, and other relevant data. Specific terms offered by lenders include the following:

- Amount of the loan
- Maturity or duration of the loan
- Interest rate, usually the prime rate or LIBOR plus or minus one or more percent
- Payment schedule, usually monthly
- Collateral pledged to secure the loan, usually involving a perfected first security interest in:
    - Leasehold improvements
    - Accounts receivable
    - Inventory
    - Equipment, furniture and fixtures
- Periodic financial statements (usually quarterly) that present the company's financial position and support the loan
- Financial covenants that the company must meet, usually specified as the attainment of minimum balance sheet account and ratio results, for example:
    - A typical balance sheet account minimum is net worth above $500,000 or some other amount
    - A typical ratio minimum is net worth-to-total liabilities greater than 2:1

- Material adverse change clause, which terminates the loan should the company's financial condition significantly change

The RFP

Companies began using requests-for-proposals (RFPs) in the early 1990s to formalize a purchasing decision that had become too casual. Existing bank relationships tended to be given extensions of credit and non-credit services under review without a formal bidding process. The Association of Financial Professionals (AFP) supported the RFP process by publishing three volumes of *Standardized RFPs* beginning in 1996.[2] Each service represented in these books includes both a printed version of the RFP and an electronic version.

The RFP is usually organized as lists of questions pertaining to general banking concerns and to specific attributes relating to each service being bid. Specific conditions for contracting for services are included in the RFP; for examples, see Exhibit 1.

[Insert Exhibit 1 here]

General issues pertain to any service being considered, and apply to the bank's financial stability and creditworthiness, approach to management of the organization for and delivery of services, and similar issues. Typical questions are provided in Exhibit 2. The issues pertaining to each non-credit service will vary by product.

[Insert Exhibit 2 here]

Pricing

Although pricing has long been the consideration in selecting a bank, recent experience has seen a decline in its importance.

- Maturity of the product cycle. Because many banking services are in the mature phase of the product cycle, there is minimal variation in the price charged by most banks. Furthermore, information on pricing is published in the *Phoenix-Hecht Blue Book of Pricing* (www.phoenixhecht.com/treasuryresources/Products/Blue_Book.html), making pricing data fairly widely available to all interested parties.

- Unbundling. Banks have unbundled pricing for many non-credit services, making line-by-line comparisons meaningless. Some banks charge for each specific activity, while others include the service in the fee for the underlying product. For example, controlled disbursing may include positive pay,[3] or it may be priced separately.

---

[2] For additional information, see http://www.afponline.org/pub/store/pubs. Selected RFPs are available for individual purchase by on-line download. The price per RFP is $79 for AFP members and $99 for non-members. However, it should be noted that certain RFPs published by the AFP are now several years old, and in need of updating.

[3] Controlled disbursing uses an account that is funded once in the morning to cover daily check presentments (debits), eliminating the need for companies to leave balances to cover late clearing items. Positive pay is a fraud prevention feature of controlling disbursing. Each day's check run is transmitted to the bank in a file, and clearing checks must match as to check number and amount to be honored by the bank. The company is notified of any mismatches, and has several hours to decide whether or not each item should be paid or rejected by the bank.

- Quality. It is generally recognized that any quality problems relating to a specific non-credit service can cost many times the price per unit of the service. As a result, the savings of a few cents per item is not important when compared to the cost to resolve an error, a communication or transmission problem, or other bank mistakes.

Account Analyses

The account analysis is the monthly invoice treasury receives for banking services. There are three purposes in requesting a *pro forma* (or projected) account analysis in the RFP.

1. Product pricing. It is useful to calculate the complete cost of each service and to determine if any unusual fees are being charged. Exhibit 3 illustrates one bank's bid for wholesale lockbox[4] as an element of a comprehensive relationship plan; we'll continue the lockbox example in the next 2 exhibits. The account analysis pricing shows a per item charge of 43 cents, but the total cost of per item is $1.48 (calculated as $7,709 total monthly charges ÷ 5,200 items)! The compilation of such data permits the determination of all ancillary costs for each non-credit service.

[Insert Exhibit 3 here]

2. Format. Another consideration in developing a *pro forma* account analyses is that the format and peculiarities of each bank's pricing can be identified. Remember: if the account analysis cannot be easily understood, you will either fail to determine that all charges are valid or will spend considerable time in trying to analyze the fees charged each month.

3. Balance information. The account analysis presents all relevant balance information, including ledger (book) balances, collected and available balances, and earnings credit rate (ECR) allowances.[5] Despite the trend toward standardization, there may be variations in these calculations due to bank-specific practices.

Evaluation of the Proposals

Because of the sheer number of potential questions and answers in a set of proposals, it is very difficult to simply read through and make any sense of the material. For this reason, one technique that has been helpful is to organize each set of responses into a table, listing the bank names in the columns and the important answers in the rows.

Exhibit 4 presents an excerpt from such a table; a complete analysis involving most of the responses could be several pages long. Note the variation in the responses to the RFP questions.

---

[4] Wholesale lockbox is used to handle low volume, high dollar checks. Remittances are directed to a Post Office Box, are picked up and processed by a bank, and are deposited same-day to the company's bank account.

[5] Ledger balances are the amounts entered onto the company's bank statement, and do not reflect the timing of access to those funds. Collected (available) funds are usable for transactions or other activities. The earnings credit rate is an interest allowance against collected balances in a checking account, usually determined by the 91-day U.S. Treasury Bill rate.

[Insert Exhibit 4 here]

The final step in evaluating the banks' proposals is to assign weights to each response based on the perceived importance of the question. The total weight adds to 100%, but any individual question can have a weighting ranging from a value of 0% to as much as 15 or 20%. The weights are based on the company's perception of the importance of each question.

An illustrative weighted scoring for lockbox is provided in Exhibit 5 for the four banks from Exhibit 4. The responses are displayed as the raw point assignments, and weighted, with the value specified for each response applied to the point assignment. The final results show Bank "A" with 247 points and Bank "D" with 242 points, significantly better than Banks "B" and "C".

[Insert Exhibit 5 here]

These scores allow the company to consider whether the expected results are consistent with the analysis, or if some adjustment in the weightings is necessary. Should the results stand, the company should visit the 2 finalists to ask difficult questions, meet the client team assigned by each bank, and develop a sense that the bank wants to be a long-term "partner". References should be contacted to inquire whether the bank has met its service obligations with its other clients.

[Insert checklist here]

Final Steps

Each credit or non-credit service is governed by agreements that address the various obligations and requirements of each party, to protect both the bank and the company in the event of a dispute. The contracts have been drafted by the bank's attorneys, and are based on long-standing precedent as established in the federal banking statutes and the Uniform Commercial Code adopted by all states.

A team should be assigned to determine the necessary bank and company actions to complete the implementation. Considerations may include notifications to your customers about changes in procedures, any required information technology initiatives, and possible changes to existing workflow procedures.

Exhibit 1: Conditions for Contracting for Services

Logistics of Proposal	1. Provide your best and final bid. 2. Submit the bid no later than a specified date and time. 3. Provide "x" copies of the bid in print and/or electronic format.
Bidder Authorization	1. An authorized bank officer must sign proposals. 2. The signed bid constitutes a binding commitment should the bank be awarded the business.
Date of Award	1. The company expects to award the business by September 1, 200X. 2. The company retains the right to reject all bids.
Non-Discrimination Clause	1. The bank agrees not to discriminate against any employee or applicant for employment with respect to race, sex, religion, ancestry, age, physical appearance, or handicap. 2. Any violation of this covenant may be regarded as a material breach of the contract.
Confidentiality	1. The bank agrees to hold in confidence any data provided by the company in this RFP or in relation to this RFP that are not otherwise publicly available. 2. The bank will not use any confidential material for any purpose unrelated to this RFP without written approval of the company.
Other Possible Conditions	1. Contract duration and cancellation. 2. Modification of the bid during final negotiations. 3. Standard company contracts and purchasing authorization(s). 4. Costs incurred by banks in preparing bids. 5. Use of subcontractors by the bank. 6. Party to respond to bidder questions about the RFP.

Exhibit 2: Bank RFP Questions: General Issues

Financial Stability and Creditworthiness	1. Identify key measures of the bank's financial strength, e.g., capital ratios, market capitalization, total assets. 2. Provide ratings for the bank and/or bank holding company from two of the major credit rating agencies. 3. Provide audited financial statements.
Organization	1. List names, titles, phone and fax numbers, and e-mail address and provide brief biographies of bank contact personnel. 2. Will one primary contact be assigned to our account? If so, from which area of the organization? How many employees does the bank have in key areas providing the service?
Commitment to the Service	1. What differentiates your service from other banks? 2. How do you plan to keep this product current and competitive? What approach is the bank taking in the development of new services?
Disaster Recovery	1. Describe your disaster recovery facilities and plans. If these facilities are maintained by a third-party, explain how you expect to recover processing capability in the event of a disaster. 2. Has your bank experienced a disaster? How was the situation handled?
Quality Assurance	1. Do you maintain quality standards including minimal and target performance goals? 2. Do you periodically publish a quality chart book and/or allow customer access to quality review meetings?
References	1. Provide 3 references in our industry or with similar processing requirements. 2. Provide the names of 2 companies that have ceased doing cash management business with your bank in the last year.

Exhibit 3: Lockbox Account Analysis Detail

Component Cost	Quan-tity	Per Item Charge	Total Charge
Wholesale maintenance	5	$100.00	$500.00
Lockbox deposit preparation	100	$1.25	$125.00
Deposit ticket	100	$0.80	$80.00
Wholesale item, photo	5,200	$0.43	$2,236.00
Non-deposited items	1,000	$0.25	$250.00
Data transmission-box 1	1	$100.00	$100.00
Data transmission-boxes 2-5	4	$40.00	$160.00
Keystrokes	23,000	$0.01	$230.00
Per image scanned	12,000	$0.03	$360.00
Image output per CD-ROM	8	$15.00	$120.00
Image services per item	12,000	$0.27	$3,240.00
Deposited items-on-us	400	$0.01	$4.00
Deposited items-in district cities	1,600	$0.05	$80.00
Deposited items-other in-district	1,600	$0.06	$96.00
Deposited items-out of district	1,600	$0.08	$128.00
Total monthly charge			$7,709.00

Exhibit 4: Selected Responses to Lockbox RFP Questions

	Bank A	Bank B	Bank C	Bank D
Unique zipcode	Wholesale & retail share unique	No unique zipcodes	Unique for wholesale	Wholesale & retail share unique; retail sorted by barcode
Number of mail pickups at post office	10 daily; 5 weekend	3 daily; 1 weekend	19 daily; 7 weekend	7 daily; 4 weekend
Quality assurance program	Monthly customer tracking for 30 types of errors	Monthly consolidated tracking for 12 types of errors	Tracking only for holdover, investigations, productivity	Full program: customer tracking, chart books, open customer meetings
Customer service	Primary representative & pool support	Specialist & pool support	Team (specialist for each service)	Pool; no specific assignments
Error rate per 10,000 transact-ions	1.2	1.8	<10 (vague answer)	0.6
Availability assignment	By item	Float factor used for retail lockbox	By item with fractional availability	Option of float factor or by item
Volume for price discount	At 20,000/ month	At 50,000/ month	No stated discounts	At 25,000/ month
Period of price guarantee	1 year standard; 2nd year available	1 year with inflation increases for 2nd year	2 years	1 year; no guarantees thereafter

Exhibit 5: Evaluation Score Sheet for Lockbox

		Points Assigned				Weighted Scores			
	Weight (%)	Bank A	Bank B	Bank C	Bank D	Bank A	Bank B	Bank C	Bank D
Unique zip code	12	2	0	2	3	24	0	24	36
Number of mail pickups at post office	12	2	1	3	2.5	24	12	36	30
Quality assurance program	22	2.5	2	1	3	55	44	22	66
Customer service	16	3	2	2	1	48	32	32	16
Error rate per 10,000 transact-ions	14	2	1.5	0	3	28	21	0	42
Availability assign-ment	8	3	2	2.5	3	24	16	20	24
Volume for price discount	8	3	1	0	2.5	24	8	0	20
Period of price guarantee	8	2.5	2	3	1	20	16	24	8
Total Weighted Points	100					247	149	158	242

Checklist for Managing the RFP Process

✓ Catalog all of your current banking relationships. Ask within your company how satisfied each user is with the various services provided.

✓ Calculate your likely needs for credit facilities and discuss them with several banks. Then ask if the bankers are also interested in bidding on your non-credit service business.

✓ Make sure that all affected business units are involved in the RFP process. Use an *ad hoc* committee to review all decisions and to assure that all parties “buy-in” to decisions made.

✓ Quality, experience and concern for the relationship should be more important than price. Remember, banks may be willing to negotiate certain charges, such as implementation fees.

✓ Edit the *Standardized RFP* modules so that only the important questions are included. Be certain to include appropriate company data on volumes, processing requirements, and other concerns.

✓ Only send RFPs to banks that have clearly demonstrated they can provide the required services. It is a waste of everyone’s time to include banks on the bid list merely because they have called on your company.

✓ Re-examine your weightings once the first set of scores are calculated to determine if you have assigned the appropriate value to each question.

✓ Do field visits to meet your contacts and tour the processing facility. Ask a few hard questions to see how your bankers handle issues requiring investigation … or if they ever get back to you with an answer!

✓ Develop an implementation team to consider and plan for any initiatives necessary to complete the transition to the new banking service.